

Message Text

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ACTION EA-09

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R 300830Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 6507

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

USMISSION OECD PARIS

USMISSION USEC BRUSSELS

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 1443

E.O. 11652: GDS

TAGS: EGEN ELAB JA

SUBJ: JAPANESE ECONOMIC OUTLOOK - 1976

SUMMARY. JAPANESE DIET POLICY SPEECHES CONFIDENTLY PREDICT RECOVERY IN THE FALL WITH REAL GROWTH PREDICTED AT 5.6 PERCENT AND INFLATION AT EIGHT PERCENT. THE NEW BUDGET WILL PROBABLY NOT ADD MUCH ECONOMIC STIMULUS AND SOLID SIGNS OF RECOVERY ARE ABSENT. WAGE SETTLEMENTS THIS SPRING ARE EXPECTED TO BE MODERATE, AND THE OVERALL ECONOMIC PROSPECTS ARE FOR STABILITY OR SLIGHT GROWTH. END SUMMARY.

1. THE SERIES OF MAJOR SPEECHES TO THE DIET GIVEN BY LEADING CABINET MEMBERS ON JANUARY 23, ESPECIALLY THOSE OF DEPUTY PRIME MINISTER FUKUDA AND FINANCE MINISTER OHIRA, SET A RESTRAINED ECONOMIC POLICY TONE FOR 1976. FUKUDA STATED THAT ECONOMIC GROWTH IN REAL TERMS WOULD BE 5.6 PERCENT DURING THE FISCAL YEAR BEGINNING ON APRIL 1, AND
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THAT GROWTH OVER THE LONG TERM WOULD BE SIX PERCENT.
HE ALSO SAID THAT INFLATION WOULD BE NO MORE THAN EIGHT

PERCENT IN JFY 76 ON AN AVERAGE ANNUAL BASIS. THE SIX PERCENT GROWTH RATE STRIKES A BALANCE BETWEEN THE FOUR OR FIVE PERCENT LEVEL WHICH FUKUDA SUPPORTED AS REALISTIC IN THE PAST AND THE SEVEN PERCENT LEVEL WHICH BUSINESS LEADERS BELIEVE ESSENTIAL IF THEY ARE TO MAINTAIN ADEQUATE PROFITS.

2. THE OFFICIAL ESTIMATE FOR ECONOMIC GROWTH IN THE CURRENT FISCAL YEAR OF 2.6 PERCENT, WHICH MAY BE TOO HIGH, IS SLIGHTLY FASTER THAN THAT OF THE EUROPEAN COUNTRIES BUT, FOR JAPAN, SEEMS CLOSE TO NO GROWTH AT ALL AFTER ALLOWING FOR THE NORMAL ONE PERCENT POPULATION INCREASE AND COMPARED TO NORMAL GROWTH RATES OF TEN PERCENT OR BETTER ALMOST EVERY YEAR. THE ECONOMY SEEMS TO BE COMING SLOWLY OFF THE BOTTOM OF ITS RECESSION, BUT BUSINESS LEADERS, WHOSE IMMEDIATE REACTION TO EARLY REPORTS OF THE NEW BUDGET WAS FAVORABLE, ARE NOT OPTIMISTIC, AND EVEN OFFICIAL ESTIMATES NOW INDICATE THAT A REAL UP-TURN WILL NOT COME UNTIL OCTOBER 1 OR LATER.

3. BUSINESS, INCLUDING CORPORATIONS LARGE AND SMALL, HAVE HAD TO BEAR MOST OF THE RECESSION BURDEN, WITH A SMALLER SHARE ALLOCATED TO WAGE EARNERS, BECAUSE BUSINESS PROFITS ARE CYCLICALLY MORE VOLATILE. ONE-THIRD OF THE LARGER CORPORATIONS LISTED ON THE TOKYO STOCK EXCHANGE HAVE REPORTED LOSSES (TWO-THIRDS ARE STILL PROFITABLE) BUT THEY SEEM TO BE ADJUSTING IN MOST CASES AND MAJOR BACKRUPTICIES ARE NOT EXPECTED. OVER THE TWO-YEAR PERIOD SINCE THE BEGINNING OF THE ENERGY CRISIS REAL WAGES HAVE NOT RISEN, BUT THE JAPANESE WORKER SEEMS TO HAVE BORNE UP UNDER THAT BURDEN QUITE WELL. INDIVIDUAL SAVINGS RATES ARE STILL CLOSE TO RECORD LEVELS, SUGGESTING THAT INDIVIDUAL SAVERS RETAIN THEIR FUNDAMENTAL CONFIDENCE IN THE VIABILITY OF THE ECONOMY AND THE VALUE OF THEIR SAVINGS.

4. THE JAPANESE ARE NOW EAGERLY LOOKING TO RISING EXPORTS AS THE WAY OUT OF THEIR RECESSION. IN INFORMAL
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CONVERSATIONS WE HAVE OFTEN CAUTIONED THAT THEY SHOULD NOT COUNT ON THAT, SINCE EVEN A SUBSTANTIAL RISE IN JAPANESE EXPORTS WOULD HAVE A REALTIVELY SMALL EFFECT ON GNP WHICH, EVEN IN THE RECESSION, IS ABOUT DOLS 500 BILLION ANNUALLY. EXPORTS WERE BETTER THAN EXPECTED IN DECEMBER AND FUTURE PROSPECTS ARE SATISFACTORY, BUT THERE ARE NO CERTAIN SIGNS THAT THEY WILL RISE QUICKLY.

5. THE JFY 76 BUDGET WILL BE THE SUBJECT OF A SEPARATE AIRGRAM ANALYSIS. FINAL BUDGET PROPOSALS HAVE JUST

BEEN RELEASED WHICH INDICATE THAT GOVERNMENT SECTOR
SPENDING WILL NOT PROVIDE A STRONG STIMULUS TO THE
ECONOMY. ALMOST EXACTLY 30 PERCENT OF SPENDING
IN JFY 76 IS EXPECTED TO COME FROM DEFICIT FINANCING.
HOWEVER, THIS FIGURE IS VARIABLE DEPENDING UPON REVENUES.
GOVERNMENT SPENDING FOR PUBLIC WORKS AND HOUSING
CONSTRUCTION HAS RECEIVED EXTENSIVE PUBLICITY BUT
WON'T INCREASE MUCH BEYOND THE CURRENT LEVELS SET IN
THE FOURTH ECONOMIC RECOVERY PLAN, WHICH WAS EMBODIED
IN THE JFY SUPPLEMENTAL BUDGET PASSED EARLY LAST
NOVEMBER. NEVERTHELESS, BUSINESS OBSERVERS WERE INITIAL-
LY OPTIMISTIC ABOUT THE BUDGET. KEIDANREN SPOKESMAN,
WHO HAVE NOT BEEN POSITIVE ABOUT GOVERNMENT PROGRAMS
PREVIOUSLY, WERE QUITE ENCOURAGED BY THE NEW BUDGET.
KEIDANREN INTERNATIONAL AFFAIRS DIRECTOR M. MIYOSHI
CONFIRMED THAT OPINION LAST WEEK, SAYING THAT
BUSINESSMAN ARE ENCOURAGED BY THE GREATLY EXPANDED
CREDIT FACILITIES IN THE JAPAN EX-IM BANK AND BY THE
ABSENCE OF ANY NEW TAX MEASURE, WHICH THEY HAD FEARED
WOULD BE LEVIED ON BUSINESS, BUT DID NOT CITE OTHER
POSITIVE FACTORS IN THE BUDGET.

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6. NIKKEIREN (JAPAN FEDERATION OF EMPLOYERS' ASSOCIATIONS) WHICH CUSTOMARILY RENDERS "ADMINISTRATIVE GUIDANCE" TO BUSINESSMEN ON APPROPRIATE SIZE OF ANNUAL WAGE BOOST, ISSUED A JANUARY 26 RECOMMENDATION THAT THIS YEAR'S INCREASE BY "ONE DIGIT" (I.E. 9.9 PERCENT OR LESS). THE NIKKEIREN CHAIRMAN WENT FURTHER IN PRESS CONFERENCE, SAYING SOME BUSINESSES MAY HAVE TO REFUSE ANY WAGE HIKE AT ALL AND RAISING SPECTOR OF LARGE-SCALE LAYOFFS IF LABOR PUSHED TOO HARD. TRADE AND INDUSTRY MINISTRY KOMOTO HELPED STRENGTHEN NIKKEIREN POSITION BY PREDICTING POSSIBLE ADDITIONAL LAYOFFS THIS YEAR. ON OTHER HAND, MAJOR PRIVATE SECTOR LABOR FEDERATIONS, LED BY TRADITIONAL PACE-SETTING STEEL WORKERS, DECLARING THAT 13 PERCENT IS THEIR GOAL. BOTH MANAGEMENT AND LABOR REPS PRIVATELY TELL US THAT AVERAGE WAGE SETTLEMENT IN PRIVATE SECTOR WILL BE NEAR UPPER END OF "ONE DIGIT" SCALE AND THAT PUBLIC POSTURING BY BOTH SIDES AIMED AT CONVINCING MORE
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MILITANT YONGER UNION MEMBERS THAT ANY SETTLEMENT ABOVE 5 PERCENT REPRESENTS MAJOR COUP BY UNION LEADERS IN FACE OF MANAGEMENT INTRANSIGENCE. THEY ADMIT, HOWEVER, THAT BECAUSE RECESSION'S EFFECT HAS VARIED MARKEDLY FROM INDUSTRY TO INDUSTRY, SPREAD OF WAGE SETTLEMENTS WILL BE WIDER THAN USUAL. PROSPECT IS FOR RAPID (BY EARLY APRIL) SETTLEMENTS, WHICH WILL BE GENEROUS ENOUGH TO SATISFY MOST UNIONS WITHOUT SPARKING ADDITIONAL LAYOFFS IN PRIVATE INDUSTRY.

7. WE CONCLUDE THAT, ALTHOUGH BUSINESS OPTIMISM WAS UP FOR A TIME, SOLID SIGNS OF RECOVERY ARE STILL ABSENT, AND THE EXPECTATION OF MAJOR RECOVERY IN AUTUMN 1976 IS MORE A HOPE THAN A CERTAINTY.
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